Military Market

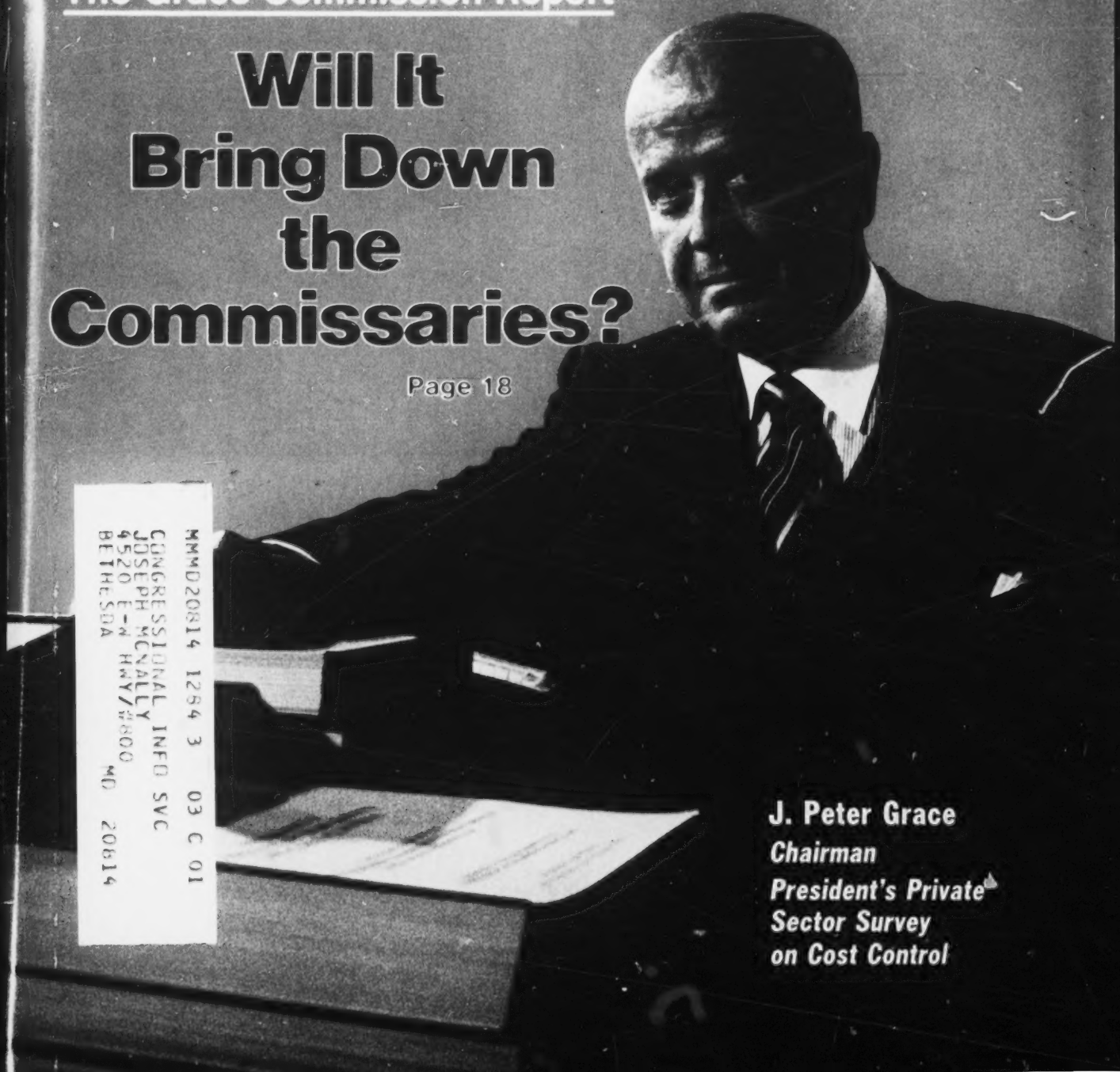
MAGAZINE FOR THE MILITARY RETAIL SYSTEM ARMY TIMES PUBLISHING COMPANY MARCH 1984 $2.00

C8910-1

The Grace Commission Report

Will It Bring Down the Commissaries?

Page 18



MMMD20814 1284 3 03 C 01
CONGRESSIONAL INFO SVC
JOSEPH MCNALLY
4520 E-W HWY/#800
BETHESDA MD 20814

J. Peter Grace
Chairman
President's Private Sector Survey on Cost Control

Military Market serving the military retail system

MARCH 1984/VOLUME 35/NO. 3
Army Times Publishing Company
A Division of The Times Journal Company

contents

Editorial Comment ... 4
News ... 9
Survey ... 12
Merchandising Bits & Pieces ... 13
Opinion ... 14
Supplier Notes/Troop Maneuvers ... 16
White Paper on Commissaries ... 18
The Grace Commission's report is loaded with errors.
Health & Beauty Aids ... 25
Effective displays are critical to success in this category.
Hardware ... 33
DIY is an indestructible industry.
Housewares ... 36
Sales are picking up again.
System of the Month: Navy Exchanges ... 41
A tour of the glorious new store at Miramar.
Household Supplies ... 46
A good year ahead.
New Products ... 52
Military Market Index ... 54
Com-Ex Comix/Ad Index ... 55
Calendar ... 56

COVER PHOTO BY KATE PATTERSON
COVER DESIGN BY GARNETT SULLIVAN

CONFUSING UNCLE SAM: Page 18

PRESIDENT:
William F. Donnelly

EXECUTIVE VICE PRESIDENT:
Henry L. Belber

SENIOR VICE PRESIDENT:
Donald J. Garyantes

VICE PRESIDENTS:
Michael Bella (Production);
Thomas B. Moore (Circulation);
Robert E. Schweitz (Editorial);
Joseph G. Varga (Advertising)

ASSISTANT EDITORIAL DIRECTOR:
James Doyle

Copyright Army Times Publishing Co. 1984, Army Times Publishing Co. — Trade Division. The material in this publication is copyrighted and may not be reproduced in whole or part without written permission of the publisher.

coming

April: Milrep Report, Ethnic Food, Toys, TSA
May: Beverages, Photography, Marine Commissaries
June: Produce, Ethnic Fashion, Back-to-School, AAFES
July: Annual Almanac and Directory issue

EDITOR
Nancy Tucker
MANAGING EDITOR
Guy Lamolinara
ASSOCIATE EDITORS
Jay Blucher, David B. Cooley
Kathy A. Thomas
ATPUBCO NEWS SERVICE
Bruce Covill, Chief; Martha Craver, Rick Maze, Tom Philpott, Paul Smith
ART DIRECTOR
Jack Auldridge

STAFF ARTISTS
Matthew Arozian, Garnett Sullivan, Carrie Wall
STAFF PHOTOGRAPHERS
Joe Matera, Kate Patterson
ADVERTISING MANAGER
Vincent Santoro
CIRCULATION
S.C. Parojinog
ADVERTISING PRODUCTION
Phyllis King

EXECUTIVE OFFICES
Springfield, VA 22159-0210
Phone (703) 750-8676

ABP
BPA

MILITARY MARKET. (USPS 911-580)
Military Market is published 12 times a year by the Army Times Publishing Co., a division of the Times Journal Co., Springfield, VA 22159-0210. Single copies, $2, except January Buyers Guide and July Almanac and Directory issues, $5 each. Yearly subscriptions within the U.S. $20; to civilian addresses outside the U.S., $25. Second class postage paid at Springfield, VA, and additional mailing offices. **POSTMASTER**: Send address correction to: Military Market Magazine, Springfield, VA 22159-0210.

Military Market survey

What Do Milreps Think?

THEY'RE A PAIN in the ass." The vendor registration programs at AAFES and NAVRESSO received that comment from the president of a military representative firm contacted during this month's survey. And it was an opinion shared by the majority (12 of 20) milrep presidents, VPs of sales, and national sales managers that MILITARY MARKET contacted.

"They're an insult to an honest man — they make me dishonest," another said. Still, there was general agreement among the respondents that some sort of control is desirable and seven of the milreps surveyed said they feel the inconvenience of vendor registration is minimal.

The representatives' real beef comes in the area of justifying their own existence — particularly with AAFES. The reps contacted by MILITARY MARKET say they believe AAFES officials want less contact with them, perhaps believing they can perform their buying function better if they don't see reps on a regular basis. Predictably, the reps surveyed didn't see it that way. Fifteen of the reps surveyed were eager to declare their value to the resale buyers. They said they perform functions that they feel are genuine contributions to the systems. Topping this list is the updated information that they believe they bring to the buyers and the close personal touch they have with the merchandise in the stores.

Reps believe that AAFES officials are incorrect if they think they will save money when buying merchandise direct from manufacturers — without reps (and their commissions):

- "They want to pick up the salesman's commission to prop up inefficiencies at AAFES."
- "I imagine they think they'll save money. Manufacturers will build it [the salesman's commission] back in next time around."
- "They want to receive the rep's commission as a discount."
- "A lot of companies are set up to do business with reps. Their buyers are not expert enough. They need a rep."
- "They think they don't need a rep. They want a discount for the system which is not necessarily turned over to the customer."

Despite this, 13 reps said they have no problems getting into exchanges to keep up with their lines. Of the seven who said they were denied access to stores, five said they were denied access to both AAFES and Navy stores, and two said they were denied access only to AAFES stores.

What can the milrep do to improve stock conditions? "Nothing more than we're doing," said one milrep executive. Six say they would like more buyer contact at the local level, and seven would like to be free to inventory merchandise in the stores and then write or suggest reorders on the spot. A chief criticism of many survey respondents was the short time, a few days, usually, that merchandise was available in the stores at the reduced (VPR) price, thus limiting the opportunity to hold a lengthy promotion.

"We point out out-of-stocks even though we're not supposed to," said one company president. "And if the buyers in Dallas knew, they would take steps to stop it. There are no problems at the store level. I wish there were a better attitude [in Dallas]. There's a lot of animosity there."

The president of one company said he believed that the turnover of personnel in the stores is excessive. "People don't have the interest in the merchandise if they know they're only going to be there six months," he said.

Seven reps surveyed made similar comments concerning supervisory personnel at headquarters and at store level. They felt more responsive attitudes would benefit both the representative companies and the resale systems.

MM

1 — DOES YOUR SALES ORGANIZATION DEAL WITH: Exchanges only — 17. Both exchanges and commissaries — 3.
2 — WHICH RESALE SYSTEM DO YOU FEEL DOES THE BEST JOB OF MERCHANDISING YOUR PRODUCTS? AAFES — 3. NAVRESSO — 4. Marine Corps — 7. Coast Guard — 0. All are about the same — 7.*
3 — HOW DO YOU RATE THE LEVEL OF COMPETENCE AND EXPERTISE AMONG THE EXCHANGE BUYERS THAT YOUR ORGANIZATION DEALS WITH? High — 7. Average — 12. Low — 1.
4 — HOW DO YOU VIEW THE VENDOR REGISTRATION PROGRAMS OF AAFES AND NAVRESSO? Streamlined and efficient — 1. No worse or better than previous systems — 6. Cumbersome and time consuming — 12. Not applicable — 1.
5 — HOW DO YOU VIEW THE TREND TOWARD INCREASING USE OF SELECTION COMMITTEES WITHIN THE RESALE SYSTEMS? Results in better selections — 5. Poorer selections — 6. Has little or no effect on selections — 7. Don't know — 2.
6 — HAVE YOU EVER EXPERIENCED ANY STORE-LEVEL PROBLEMS WITH YOUR SALES PERSONNEL BEING DENIED ACCESS OR GIVEN ONLY LIMITED ACCESS TO SERVICE THEIR LINES? Yes — 7. No — 13.
7 — WHAT DO YOU THINK IS BEHIND AAFES' TELLING MANUFACTURERS THAT "YOU DON'T NEED A CONTRACTED VENDOR'S REPRESENTATIVE (MILREP) TO DO BUSINESS WITH AAFES?" Political — 0. Economic efficiency — 15. Some ulterior motive to benefit AAFES — 0. Don't know — 4. Other — 1.
8 — DO THE RESALE SYSTEMS DO AN ADEQUATE JOB OF PASSING ALONG THE VPRs YOU OFFER? Always — 8. Usually — 7. Seldom — 5.
9 — ARE THERE ANY SUGGESTIONS YOU MIGHT OFFER TO THE RESALE SYSTEMS THAT WOULD HELP THEM TO REDUCE OUT-OF-STOCK SITUATIONS AND PURGE SLOW-MOVING SKUs FROM THEIR LINES? See story.
10 — IS THERE ANYTHING THAT YOU SPECIFICALLY RECOMMEND TO YOUR SALES PERSONNEL TO IMPROVE STOCK CONDITIONS? See story.

* Answers do not add to 20 because of multiple responses.

Will It Bring Down the Commissaries?

The final report of the President's Private Sector Survey on Cost Control is the most recent of many studies that have recommended doing away with the commissary system. But its conclusions are based on misinformation and its recommendations are contradictory. It also fails to address a number of important questions. In the end, commissaries actually save the taxpayer hundreds of millions of dollars a year — something the Grace Commission study failed to mention.

By JAY BLUCHER
Associate Editor

THE SIDES ARE DRAWN. The gauntlet is thrown. No more covert operations or behind-the-scenes maneuverings against the commissary system. With the final report of the Grace Commission now on the president's desk, the enemies of the commissary system are clear and out in the open.

Criticism of the military's grocery stores is nothing new. The shopping benefit has a long history of opposition from the supermarket industry and from some members of Congress. This time around the critics are members of a blue-ribbon panel of private industry executives — the President's Private Sector Survey on Cost Control, also known as the Grace Commission. Convened in 1983 and chaired by crusty J. Peter Grace, chairman of the W.R. Grace Co., the commission was assigned the gargantuan task of ferreting out waste within the federal government.

On Jan. 16 the Grace Commission gave President Reagan a total of 2,400 recommendations for governmental savings, 275 of which involve the Pentagon. Grace himself has conceded that much of the proposed $424 billion in total cost cuts cannot be achieved for many years.

Two of the commission's 36 task forces concluded that commissaries can no longer be justified for economic reasons and have recommended to the president that major changes be made. "Commissaries have duplicated the services delivered by supermarkets and placed the government in competition with private sector business," said one report.

The Grace Commission's final report has many critics. Its research has been found to be incomplete, inaccurate or highly biased, and in many cases the final version fails to reconcile the contradictory recommendations and savings estimates of the early drafts. As the figures on the opposite page show, the commission's recommendations on commissaries were among those that were not clarified.

The commission also failed to address serious questions concerning the commissary business, such as how overseas stores would be operated if Stateside stores were closed. And it also neglected to mention that commissaries save the federal government several hundred million dollars a year in Cost of Living Allowance offsets. DoD research indicates, for instance, that it would cost the government 84 percent more than the current commissary appropriation to reimburse stateside married personnel for the loss of their commissary benefit. *(See chart on page 21.)*

A Serious Threat

There are members of Congress who believe that the effort to close the commissaries is gaining steam and that the challenge from the Grace Commission, despite the faults in its reports, represents one of the most serious threats against the system they have witnessed for many years.

But support in Congress generally remains strongly in favor of commissaries, and the Grace Commission recommendations are beginning to be questioned. "It's the same old argument — the federal government should not be in the grocery store business," says Rep. William Nichols, D-Ala., member of the House Armed Services Committee and its Morale, Welfare and Recreation Panel.

Nichols believes that Grace Commission researchers do not understand the importance of commissaries to the military. He cites a litany of errors that, besides summarizing PPSSCC thinking on the subject, serves as a summary of virtually every criticism ever leveled at the system:

"The Grace Commission is of the opinion that commissary privileges have little impact on recruiting and retention and that the benefits to the military are unknown. It also believes that there is no need for commissaries in metropolitan areas, that commissary savings are not factual and that military commissaries are similar to discount warehouse grocery stores," he says.

The Grace Commission report may be the newest threat to the commissary system, but challenges to the existence of commissaries are certainly not. Retail interests have long leveled criticism at the stores. But the government, though sometimes reluctantly, has always funded them, even in the face of an occasional blast from powerful figures, such as that delivered as far back as 1947 by then HASC Chairman Carl Vinson: "It was never intended that the government should go in the business of providing for its personnel where they have the privilege and opportunity to go to a private place to buy."

Another major threat to the commissary system surfaced in 1954, when a rider inserted in that year's military appropriation act barred funding for commissaries

Pie in the Sky

What the Grace Commission says can be saved . . .

[1]**DOD TASK FORCE:** Three-year savings of $972.7 million by closing ConUS commissaries.

[2]**PRIVATIZATION TASK FORCE:** Three-year savings of $2,064.0 million and revenue generation of $383.2 million by privatizing.

[3]**MANAGEMENT ISSUE PAPER ON CONGRESS:** Three-year savings of $2,509.0 million by contracting out commissaries.

unless the defense secretary certified that adequately stocked civilian grocery stores were not available "at a reasonable distance and a reasonable price." This requirement has continued since 1954 and is the origin of the DoD Triennial Certification of Military Commissary Stores, a pricing comparison between commissaries and civilian stores, which will next be conducted in 1985.

In 1975 President Gerald Ford's administration proposed under Program Budget Decision 282 that federal appropriations for commissaries be gradually phased out. The Ford concept would have required commissaries to be fully self-supporting, in the manner of exchanges, within a two-year period. Numerous bills introduced in Congress prevented the proposal, supported by some Defense officials, from being put into law.

Now in 1984 the commissary benefit is again under attack. While the Grace Commission came up with several different recommendations regarding commissaries, the net result of implementing any of them would be to change the very nature of the benefit, and ultimately reduce its value to the military member.

The report of the Grace Commission's Task Force on the Office of Secretary of Defense, for instance, recommended that DoD completely "terminate the operation of the commissary system in the U.S.," adding that "If there is no adequate supermarket nearby to meet military personnel needs — a highly unlikely occurrence — the exchange system should operate a full-line food store." The task force did not say what it thought should be done to provide on-base grocery sales, nor did it address the question of how support would be given to shoppers overseas, but said that $972.7 million would be saved over a three-year period (the years 2001-2003) by shutting down the stores entirely.

Grace's Task Force on Privatization was a bit kinder. Unlike the DoD Task Force, it proposed leaving military shoppers some sort of on-base shopping alternatives. Predicting that the government would save $2.1 billion over three years (again, the years 2001-2003) if the functions of commissaries were turned over to private industry, the

group recommended that steps be taken immediately to privatize the stores. "The Secretary of Defense, in consultation with the House Armed Services Committee, should direct the services to solicit bids to operate commissaries from private sector warehouse food store operators."

Yet another recommendation, this one from a "management issue report" titled "The Cost of Congressional Encroachment," proposed a three-year savings of $2.5 billion if commissaries are turned over to contractors.

In this report, the PPSSCC accused Congress of being more part of the problem regarding commissaries than part of the solution. "The House Armed Services Committee has routinely raised commissary appropriations to provide . . . new stores with employees and inventories. The result of this abdication of congressional oversight has been to make commissary expansion self-perpetuating." The Grace report said that Congress' refusal to implement the recommendations of the Ford Administration's PBD 282 has cost taxpayers $4.5 billion since FY 1977.

[The Army's Troop Support Agency is currently testing contract operation of the commissary at Yuma Proving Ground, Ariz. Analysis of the results of this test, which began in December 1983, will determine the feasibility of further commissary contracting within DoD. The Yuma test is the consequence of yet another historic challenge to the existence of the stores, Office of Management and Budget Circular A-76, which directs federal agencies to expand the number of functions that can efficiently be conducted by nongovernment employees. Circular A-76 was first promulgated in 1966; the proposal to contract out commissaries is the result of a 1979 revision.]

The 0.06 Percent Solution

While the Grace Commission has been quick to predict that multimillions of dollars can be saved by changing the nature of the commissary benefit, many of its calculations pinpointing possible commissary savings rely on the misguided observation that warehouse food stores and commissaries are essentially the same.

Evidence of comparability between commissaries and warehouse stores is weak, at best. A spokesman for the Agriculture Department's Economic Research Service tells MILITARY MARKET that "these stores vary greatly in the type of service and range of products offered. Most commonly, they operate on the principle of minimizing their operating costs by offering spartan convenience."

This used to be *modus operandi* in commissaries as well, but not anymore. With centralized management control now in effect, today's commissaries resemble modern supermarkets in appearance and operation. So while the Grace Commission's sweeping generalization that commissaries and warehouse outlets are the same could still apply in a few instances, it doesn't apply often enough to warrant the commission's basing its complex cost-savings calculations upon such a loose comparison.

But the commission concluded that commissaries have traditionally been compared to full-service supermarkets, a comparison the commission felt was unfair. The true similarity, said the commission, was between commissaries and low-price warehouse stores, which the task force claimed carry approximately the same number of line items and a comparable product mix, but at prices 20 percent less than supermarkets. Researchers for the Privatization Task Force calculated the price difference between commissaries and warehouse stores at only 0.06 percent — six one-hundredths of a percent.

The task force arrived at this startlingly low figure through some clever manipulations of statistics. For instance, the figure used to calculate commissary savings was taken from the triennial survey conducted at Mather AFB on June 20, 1980; this was supplied to the Privatization Task Force by the Food Marketing Institute, which had an obvious bias in seeing a small percentage of savings. Mather's savings that year were the lowest reported by any commissary in ConUS.

The privatization research group also proceeded on an unsupported assumption that warehouse stores save 20 percent over conventional supermarkets. Recent industry figures demonstrate that savings in warehouse stores are nowhere near the 20 percent that the Privatization Task Force claims. *(See table on page 23.)*

The Privatization Task Force based its observation of the operation of commissaries on visits to just two stores, Cameron Station and Fort Belvoir, Va., both in the metropolitan Washington, D.C. area. The store at Fort Belvoir was visited before the post's new facility opened in July 1982. Officials in the commissary systems believe that if the task force had visited modern commissaries such as those at Fort Dix/McGuire AFB, N.J., Fort Benning, Ga., or NAS Miramar, Calif., or any of the other new, surcharge-funded stores and had seen what modern shopping facilities are now being provided to the military customer, they would not have arrived at the same conclusions.

Commissaries are more than just grocery stores, however. The Air Force, for instance, uses AFCOMS commissary personnel to oversee troop feeding as well as operate food stores, and the Army's TSA has command of troop feeding as well as of commissaries. Peacetime commissary operations therefore provide a trained cadre of food logisticians for wartime emergencies. But the Grace Commission report did not address how these troop-level responsibilities would be met without the existence of commissaries.

Another important consideration is that if ConUS commissaries are all turned over to private interests, how would the stability and continued operation of overseas commissaries be maintained? Like the troop feeding question, this issue was never addressed by the Grace Commission.

Questionable Claims for Warehouse Savings

The 20 percent savings over supermarket prices that the commission claimed for warehouse stores are questionable.

For instance, a 1981 survey done in the Washington, D.C., area by the Washington Consumer's Checkbook Service showed that warehouse store savings were about 20 percent over supermarket prices that year, when such stores were new to the area. But the identical survey conducted two years later revealed that savings had declined to about 11 percent. Thus in three years, savings went down by almost half.

This trend, apparently widespread, is affecting patron loyalty. A number of chains are re-thinking their warehouse food operations. A & P and Grand Union, for instance, have closed some warehouse stores because of declining profitability.

Agriculture Department statistics also challenge the commission's assumption of substantial savings in warehouse stores over supermarkets. USDA figures for 1980, for instance, indicated a gross margin of 12 percent to 13 percent in warehouse stores.

WHAT WOULD IT COST UNCLE SAM IF HE DIDN'T HAVE COMMISSARIES?

*DoD has calculated that appropriated fund support for commissaries in FY 1982 was $417.6 million. There were 1,580,128 active duty military personnel assigned to ConUS that year, 810,605 (or 51.3 percent) of whom were married. The average annual disposable income per servicemember in FY '82 was $15,156, and the average annual amount spent on "food to be consumed at home" was $3,787 (25 percent of income). Average commissary savings (25 percent) on this amount is $947 per year — the amount which would be paid married servicemembers assigned to ConUS in lieu of comissaries. For all married personnel assigned to ConUS, this would amount to $767.64 million in FY' 82 — an increase of $350.04 million, or 83.8 percent, over the actual appropriated fund support for that year.

Warehouse food stores are a fairly new entry on the grocery retailing scene, appearing only in the last half decade. According to *Progressive Grocer*, the warehouse store format remains in the most flux of all categories of grocery stores. From the simplicity of the original box stores of the Pacific Northwest, they have become more complex, and increasingly resemble full-service supermarkets. An example is in perishables. Though virtually nonexistent in the early stores, huge, quality-oriented perishables departments are now the focal point of several outlets. And superwarehouse stores of 50,000 to 60,000 square feet are now appearing on the scene; the relatively new Cub chain has a stripped-down warehouse image with upscale perimeter service departments that emphasize variety and quality.

A March 1983 report by Willard Bishop Consulting Economists places the average gross margin for warehouse stores at more than 14 percent, with margins in some departments as high as those in supermarkets: Average margins top 30 percent in deli departments, for instance, and go to more than 40 percent in service bakeries in the larger warehouse stores.

No Independent Surveys?

The Grace Commission also criticized the commissary system by saying that there were very few recent independent surveys comparing commissary and civilian prices. This is another mistaken impression, but it nevertheless figured prominently in some of the group's miscalculations about commissaries. *(See table on page 22.)*

For instance, in an August 1983 market basket comparison done by researchers at American University, the savings that the commissary systems say they offer the military patron were substantiated across the board.

The comparison of commissary prices to those of civilian stores was done at the request of the Army to provide information to a Pentagon study group looking into possible changes in military pay. The study was ordered because Army officials felt "that as long as we were comparing the earnings of military people to that of civilians, we should also compare where they spent their money."

Based on a market basket survey of 81 food items, the survey found the following actual dollar savings at five commissaries over retail grocery stores in the same geographical area:

RECENT SURVEYS CONFIRM IMPORTANCE

Date	Conducted By	Survey Method	Conclusions	Comments
August 1983	American University, for Department of the Army	Market basket survey of 5 commissaries, 5 supermarkets, 81 items	Totals in commissaries were 22.6%-30.6% below comparable supermarkets	Survey provided information to a Pentagon study group looking into possible adjustments in military pay. Estimated that a family of four would save $1,285 a year with commissary shopping
June 1983	Counsel House Research, for the American Logistics Association	Worldwide mail survey of 10,242 active duty service personnel	Commissary benefit perceived as second most important benefit, after medical	Perception of the importance of the benefit rises sharply after enlistment. More than half of the people surveyed rated the benefit worth at least $100 per month
February 1983	Army Soldier Survey	Mail survey of almost 20,000 active duty Army personnel	Commissary benefit rated as second most important benefit, after medical	Over 85% of the personnel surveyed had shopped in a commissary within the past year. Importance given to benefit increases with length of service
March 1980	Hay Associates, for DoD	Field survey of 2,370 active duty personnel	Commissary benefit perceived as second most important benefit, after medical	Typical military member says commissary benefit worth $931 per year

LOCATION	SAVINGS
Safeway, Killeen, Texas, vs. Fort Hood	24.7%
Piggly Wiggly, Leesville, La., vs. Fort Polk	22.6%
Safeway, Lakewood, Wash., vs. Fort Lewis	25.6%
Victory Market, Leominster, Mass., vs. Fort Devens	26.5%
Safeway, Springfield, Va., vs. Fort Belvoir	30.6%

The American University price comparison is being used to refute many of the charges leveled against the commissary system by the Grace Commission. Coming at a time when Congress is considering legislation that would order DoD to have independent surveys done of the savings offered to commissary shoppers, the AU survey clearly shows that the reported savings of commissaries are accurate.

A Promise Still Being Made

Commissaries are an integral part of the promises still being made to young servicemembers, and elimination of the benefit will undoubtedly put a crimp in the military's ability to recruit suitable personnel. The commissary benefit is highlighted in every service's recruitment brochures, and all the services regard the commissary entitlement as a real drawing card and a key retention incentive.

A 1983 Army recruiting publication, for instance, promises the prospective enlistee such incentives as free medical and dental care, housing, clothing, commissary shopping privileges and lifetime veterans benefits. In a Navy recruiting publication, potential service personnel are told, "Depending on where you serve, you'll find a ship's store, exchange or commissary. Some are huge department store complexes. But with your ID card, you're entitled to shop in them — and enjoy special prices on everything from soap to cigarettes." ROTC candidates are told in service publications that if they retire at the end of a full career they will receive their retired pay, plus medical care, commissary, exchange and other privileges.

"As one of the most appreciated fringe benefits, commissary savings have been consistently considered a part of the military compensation package," a spokesman for the Association of the United States Army told MILITARY MARKET. "The commissary and exchange privilege is taken into account whenever military pay increases are considered by Congress," and are also included in computing Cost of Living Allowances.

Commissaries are not only important in the recruitment of new personnel, they are invaluable in retaining trained servicemembers. Surveys conducted by both the military and by outside organizations have repeatedly ranked the commissary shopping benefit as second only in importance to the medical benefit.

In a study conducted just last year, respondents were asked to estimate how much additional monthly allowance would compensate them if they had no access to a commissary. A majority (53.7 percent) estimated the value of the commissary to them as $100 per month or more. Some 9.1 percent placed their estimate at more than $200.

Other Errors and False Assumptions

There are other factual errors and faulty assumptions used by the Grace Commission in its conclusions, mis-

takes that will undoubtedly be addressed during hearings scheduled to be held this month by the House Armed Services Committee. HASC staffers, for instance, point out that the Grace report said that "The estimate of direct and indirect appropriated subsidy [for the commissaries] is approximately $850 million a year."

But in fact the fiscal year 1984 DoD budget request for commissaries — representing *direct* commissary support for the Air Force, Army, Navy and Marine Corps — was only $605 million. This is as follows:

	MILLIONS
Military personnel pay	$34.3
Civilian pay	$394.4
Transportation costs overseas	$130.7
Other costs, utilities, support, etc.	$45.6
TOTAL	**$605.0**

The Grace Commission estimated that $245 million was to be spent for *indirect* support of commissaries, and apparently derived this estimate from House Appropriations Committee figures, which said that the tab for indirect support of commissaries will be $245 million in 1984. This HAC figure represents an estimate of base support allocated to commissaries for such services as base security, firefighting, garbage collection, snow removal, etc.

These kinds of support are provided to *all* base operations and activities. But while the Grace Commission assumed that this figure represented the total dollar amount going to commissaries for indirect support, Hill staffers tell MILITARY MARKET that, in actuality, money for base operations is a separate line of the budget; support for commissaries is part of base services and it is virtually impossible to define exactly how much went specifically to commissaries.

A reduction in this kind of support to commissaries would not therefore mean that there would be fewer firefighters or police. So another of the questions that the Grace Commission failed to consider is that if the commissaries were to be operated by private industry, how would these services be provided, yet still keep prices at their current levels. It is unreasonable to assume private industry would find this possible. The money for these services would have to come from somewhere, probably in the form of higher prices for the patron.

Several other figures that the Grace Commission reported were also in error or were misinterpreted, say Hill staffers. Between 1980 and 1983, for instance, commissary sales increased 25 percent, from $3.6 billion to $4.5 billion. But in this period, the number of stores worldwide went from 375 to 372, and civilian personnel levels declined as well, going from 22,375 to 21,467, or 4 percent. In effect, this means that the 25 percent increase in sales is today being handled by fewer people working in fewer stores.

The Grace Commission also believed that the commissaries tend to benefit only more senior and married personnel since younger, single military generally are fed in mess halls. This also is misleading. All personnel with ID cards are permitted commissary privileges, and all active duty personnel, regardless of rank, have the privilege. [The only exception to this policy occurs in Korea, as a blackmarketing countermeasure; in order to be eligible to shop at the commissary there, dependent wives must have been married at the time the soldier received orders to Korea.]

The dollar volume of food stamps spent in DoD commissaries also is an indicator of the magnitude of the importance of commissaries. Total food stamp redemptions in commissaries in 1983 were $12.8 million. While this is substantial in itself, it is well below the all-time high of $23.4 million in 1981, when military pay was seriously lagging behind that in the civilian sector and inflation was rampant.

The value of commissaries to their customers is also reflected by the fact that commissaries redeem between 30 percent and 50 percent more cents-off coupons per customer than civilian supermarkets, according to one commissary system source.

There are also currently more than a million military retirees in the United States who served more than 20 years in the armed forces and therefore are eligible to shop in commissaries. This was a promised benefit of their retirement years given to them throughout their military careers. Retirees are not wealthy — the average retired rank among them is staff sergeant or first class petty officer (E-6), receiving a marginal pension.

COMMISSARIES USUALLY OUT-PERFORM OTHER STORES

	ARMY[1]	NAVY[2]	AIR FORCE[3]	MARINES[4]	SUPER-MARKETS	WAREHOUSE STORES[5]
Number of line items (all depts.)	4,386	5,023	6,717	5,787	11,382[6]	9,708
Average weekly hours of operation	42.0	43.0	44.4	43.8	102.0[6]	84.5
Average selling area (sq. ft.)	13,413	13,505	N/A	14,849	17,000[7]	27,600
Average customer count/week	5,655	4,500	5,847	4,501	8,800[7]	9,750
Average order size	$37.58	$45.06	$41.88	$41.00	$11.79[6]	$25.97
Sales per sq. ft./week	$15.85	$15.19	$13.97	$12.42	$6.93[6]	$9.69
Sales per labor hour	$94.24	$129.88	N/A	$83.39	$85.00[7]	$168.50[9]
Labor/fringe costs as % of sales	11.5%*	9.9%*	N/A	11.2%	11.0%[7]	12.19%
Average sales per store/week	$212,545	$200,729	$271,537	$170,335	$104,856[6]	$250,000
Inventory turns/ year	12.13	14.21	N/A	14.3	13.59[6]	26
Surcharge or gross margin	5.0%	5.0%	5.0%	5.0%	24.3%[8]	14.31%

* Including military personnel

SOURCES:

[1]As reported by U.S. Army Troop Support Agency, ConUS stores for first three quarters of FY 1983

[2]As reported by Navy Resale and Services Support Office, ConUS stores

[3]As reported by Air Force Commissary Service, ConUS stores for fourth quarter 1983

[4]As reported by Marine Corps Installations and Logistics Department, worldwide stores for year ending Sept. 30, 1983

[5]"1983 Warehouse Store Operating Survey," Willard Bishop Consulting Economists Ltd., March 1983

[6]*Progressive Grocer*, April 1983

[7]*Competitive Edge*, Vol. III, No. 2, July 1983

[8]*Chain Store Age/Supermarkets*, July 1983

[9]Average of departments only, *excluding* front end

Military Market index

Commissaries

		NOVEMBER			YEAR-TO-DATE		
		CY'83	CY'82	%	CY'83	CY'82	%
Air Force	CONUS	$148,891	$136,247	+9.28	$1,605,420	$1,518,378	+5.73
	OVERSEAS	30,048	27,129	+10.76	318,896	304,530	+4.72
	TOTAL	**178,939**	**163,376**	**+9.53**	**1,924,316**	**1,822,908**	**+5.56**
Army	CONUS	99,645	94,640	+5.29	1,139,237	1,105,104	+3.09
	OVERSEAS	34,230	26,832	+27.57	360,424	328,328	+9.78
	TOTAL	**133,875**	**121,472**	**+10.21**	**1,499,661**	**1,433,432**	**+4.62**
Navy	CONUS	52,167	46,789	+11.49	601,978	569,298	+7.63
	OVERSEAS	6,001	5,544	+8.24	69,552	65,518	+6.16
	TOTAL	**58,168**	**52,333**	**+11.15**	**671,530**	**624,816**	**+7.48**
Marines	CONUS	11,884	10,490	+13.29	126,981	119,455	+6.30
	OVERSEAS	190	176	+7.95	2,087	1,962	+6.37
	TOTAL	**12,074**	**10,666**	**+13.20**	**129,068**	**121,417**	**+6.30**
Coast Guard	CONUS	312	216	+44.44	3,203	2,981	+7.45
	OVERSEAS	272	277	-1.81	2,163	2,154	+0.42
	TOTAL	**584**	**493**	**+18.46**	**5,366**	**5,135**	**+4.50**
All Commissaries	CONUS	312,899	288,382	+8.50	3,476,819	3,305,216	+5.19
	OVERSEAS	70,741	59,958	+17.98	753,122	702,492	+7.21
	TOTAL	**$383,640**	**$348,340**	**+10.13**	**$4,229,941**	**$4,007,708**	**+5.55**
Grocery Stores	U.S.[1]	**$20.647 bil.**	**$19.385 bil.**	**+6.51**	**$224.787 bil.**	**$214.437 bil.**	**+4.83**

Exchanges

AAFES	CONUS	$241,508	$245,669	-1.69	$2,498,573	$2,417,986	+3.33
	OVERSEAS	157,052	161,454	-2.73	1,678,643	1,639,418	+2.39
	TOTAL	**398,560**	**407,123**	**-2.10**	**4,177,216**	**4,057,404**	**+2.95**
Navy	CONUS[2]	98,438	98,255	+0.19	942,267	934,719	+0.81
	OVERSEAS[2]	38,462	35,916	+7.09	399,156	377,592	+5.71
	TOTAL[2]	**136,900**	**134,171**	**+2.03**	**1,341,423**	**1,312,311**	**+2.22**
Marines	CONUS	30,199	30,829	-2.04	306,999	306,798	+0.07
	OVERSEAS	4,524	4,674	-3.21	50,504	50,774	-0.53
	TOTAL	**34,723**	**35,503**	**-2.20**	**357,503**	**357,572**	**-0.02**
Coast Guard	CONUS[3]	6,866	6,764	+1.51	66,884	65,892	+1.51
	OVERSEAS[3]	936	754	+24.14	9,120	7,346	+24.15
	TOTAL[3]	**7,802**	**7,518**	**+3.78**	**76,004**	**73,238**	**+3.78**
Mail Order	CONUS[4]	2,125	2,016	+5.41	13,551	12,160	+11.44
	OVERSEAS[4]	5,575	4,882	+14.20	41,542	41,741	-0.48
	TOTAL[4]	**7,700**	**6,898**	**+11.63**	**55,093**	**53,901**	**+2.21**
All Exchanges	CONUS	379,136	383,533	-1.15	3,828,274	3,737,555	+2.43
	OVERSEAS	206,549	207,680	-0.54	2,178,965	2,116,871	+2.93
	TOTAL	**$585,685**	**$591,213**	**-0.94**	**$6,007,239**	**$5,854,426**	**+2.61**
Department Stores	U.S.[1]	**$11.896 bil.**	**$10.705 bil.**	**+11.13**	**$96.949 bil.**	**$89.881 bil.**	**+7.86**

1) SOURCE: U.S. Department of Commerce. 2) Does not include sales of ships stores. 3) MM estimate, based on official data. 4) Includes consolidated sales for all services, including Coast Guard.

Individual figures may not add to totals because of rounding. All sales are expressed in millions (add 000), except grocery stores and department stores, which are in billions. Commissary sales include appropriate surcharges, and exchange sales include concession volume.